

No Acceleration of the Bonds

The Bonds are not subject to acceleration upon the occurrence of a default. The City, therefore, would be liable only for principal and interest payments as they become due. In the event of multiple defaults in payment of principal or interest on the Parity Bonds, the registered owners would be required to bring a separate action for each such payment not made. This could give rise to a difference in interests between registered owners of earlier and later maturing Parity Bonds.

Subordinate Lien Bonds

The City had \$98,355,000 principal amount of outstanding Subordinate Lien Bonds as of June 30, 2003, all in variable rate mode. The ordinances authorizing the issuance of the Subordinate Lien Bonds allow for the conversion of those bonds to Parity Bonds upon compliance with the requirements relating to the issuance of additional Parity Bonds at the time of conversion. Under the authorizing ordinances, the aggregate principal amount of outstanding Subordinate Lien Bonds at the time of issuance is limited to the greater of \$70,000,000 or 15 percent of the aggregate principal amount of Parity Bonds then outstanding.

Subordinate Lien Notes

Also outstanding on May 31, 2003, was \$125,000,000 principal amount of Municipal Light and Power Revenue Anticipation Notes, 2002 (the “2002 Notes”), which mature on November 21, 2003. The lien of the 2002 Notes on Net Revenue is subordinate to the lien on such Net Revenue of the Parity Bonds and the Subordinate Lien Bonds.

Cash Pool Loan

The City’s Director of Finance is authorized to make loans to individual funds participating in the City’s common investment portfolio (the “Cash Pool”) by carrying such funds in a negative cash position for a period of up to 90 days, or for a longer period upon approval by the City Council by ordinance, to the extent such loans can be supported prudently by the Cash Pool and the borrowing fund is reasonably expected to be able to repay the loan. Such loans bear interest at the Cash Pool’s rate of return. In May 2003, the City Council passed an ordinance authorizing a loan of up to \$50 million to the operating account of the Light Fund from the Cash Pool through August 31, 2003. As of July 7, 2003, this loan had been repaid in full. The ordinance also authorized the Light Fund to borrow \$100 million from the Cash Pool for the period from October 31, 2003, through December 31, 2004. The Department expects to make use of this authorization from November 2003 through June 2004. The maximum amount of the Department’s indebtedness to the Cash Pool is projected to be \$71 million in December 2003. See “The City of Seattle—Financial Management—Interfund Loans.”

Contingent Obligations

The Department has in the past and may in the future enter into various agreements, such as energy purchase agreements or financial derivative contracts, under which the Department may be obligated to make payments or post collateral contingent upon certain future events within or beyond the Department’s control. Such contingent payment obligations may be treated as operation and maintenance charges payable from Gross Revenues prior to the payment of principal of and interest on the Parity Lien Bonds, the Subordinate Lien Bonds and the 2002 Notes. See “Power Resources—Purchased Power Arrangements.”

DESCRIPTION OF THE BONDS

The Bonds will be dated the date of their initial delivery. Interest on the Bonds is payable semiannually on each May 1 and November 1, beginning November 1, 2003, at the rates set forth on the inside cover of this Official Statement. Principal is payable on each November 1, beginning November 1, 2004, in the amounts set forth on the inside cover of this Official Statement. Interest on the Bonds is to be computed on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued in \$5,000 denominations and integral multiples thereof. The principal of and interest on the Bonds is payable by the Bond Registrar, currently the fiscal agent of the State of Washington (the “Bond Registrar”) (currently, The Bank of New

York in New York, New York). For so long as the Bonds remain in a “book-entry only” transfer system, the Bond Registrar will make payments of principal and interest only to DTC, which in turn will remit such payments to its participants for subsequent disbursement to beneficial owners of the Bonds, as further described in Appendix E hereto.

Redemption of the Bonds

Optional Redemption. The Bonds maturing before November 1, 2014, are not subject to redemption prior to maturity. The Bonds maturing on or after November 1, 2014, are subject to redemption prior to maturity at the option of the City on and after November 1, 2013, in whole or in part at any time (maturities to be selected by the City and randomly within a maturity in such manner as the Bond Registrar may determine and, so long as the Bonds are in book-entry form, in accordance with the procedures established by the securities depository) at the price of par plus accrued interest.

Mandatory Redemption. If not previously redeemed as described above, the Term Bonds will be called for redemption (in such manner as DTC will determine) at a price of par plus accrued interest to the redemption date, on November 1 in the years and amounts shown below.

<u>Year</u>	<u>Amount</u>
2026	\$8,455,000
2027	8,875,000
2028*	9,320,000

* Final maturity.

If the City redeems Term Bonds under the optional redemption provisions described above or purchases Term Bonds in the open market as described below, the par amount of the Term Bonds so redeemed or purchased (irrespective of their actual redemption or purchase prices) will be credited against the remaining scheduled mandatory redemption requirements for those Term Bonds in a manner to be determined by the City or, if no such determination is made, on a pro-rata basis.

Notice of Redemption. Notice of any intended redemption will be given not less than 30 nor more than 60 days prior to the redemption date by first-class mail, postage prepaid, to the registered owner of any Bond to be redeemed at the address appearing on the Bond Register at the time the Bond Registrar prepares the notice. The requirements of this section will be deemed to have been fulfilled when the notice is mailed, whether or not it actually is received by the registered owner of any Bond. As long as the Bonds are held in book-entry form, notices will follow procedures established by the securities depository. See “Description of the Bonds—Book-Entry Transfer System.”

Open Market Purchase

The City reserves the right and option to purchase any or all of the Bonds in the open market at any time at any price acceptable to the City plus accrued interest to the date of purchase.

Book-Entry Transfer System

Book-Entry Bonds. DTC will act as initial securities depository for the Bonds. The ownership of one fully registered Bond for each maturity, as set forth on the inside cover of this Official Statement, each in the aggregate principal amount of such maturity, will be registered in the name of Cede and Co., as nominee for DTC. For so long as the Bonds remain in a “book-entry only” transfer system, the Bond Registrar will make payments of principal and interest only to DTC, which in turn will remit such payments to its participants for subsequent disbursement to beneficial owners of the Bonds. See Appendix E for additional information. *As indicated therein, certain information in Appendix E has been provided by DTC. The City makes no representation as to the accuracy or completeness of the information in Appendix E provided by DTC. Purchasers of the Bonds should confirm this information with DTC or its participants.*

Termination of Book-Entry Transfer System. If DTC resigns as the securities depository and the City is unable to retain a qualified successor to DTC, or if the City determines that a continuation of the book-entry transfer

system is not in the best interests of the City, the City will deliver at no cost to the beneficial owners of the Bonds or their nominees Bonds in registered certificate form, in the denomination of \$5,000 or any integral multiple thereof within a maturity. Thereafter, the principal of the Bonds will be payable upon due presentment and surrender thereof at the principal office of the Bond Registrar. Interest on the Bonds will be payable by check or draft mailed or by wire transfer (wire transfer will be made only if so requested in writing and if the registered owner owns at least \$1,000,000 par value of the Bonds), to the persons in whose names such Bonds are registered, at the address appearing upon the registration books on the 15th day of the month preceding an interest payment date, and the Bonds will be transferable as provided in the Bond Ordinance.

THE DEPARTMENT

Introduction

The Department is a municipally-owned electric utility. In 1905, the City began providing its residents with electricity generated by the Cedar Falls Hydroelectric Plant, which was the first municipally-owned hydroelectric facility in the nation. By 1910, operational responsibility for the City's electric system had been assigned to a separate lighting department, referred to herein as the "Department." In 1951, the Department purchased from Puget Sound Power and Light Company certain generation, transmission and distribution facilities serving the City's residents. The Department has operated without competition in its service area since the 1951 purchase. See "Customers, Energy Sales and Peak Loads—Service Area" for a description of the Department's service area.

The Light System currently consists of seven hydroelectric generating plants (with an aggregate one-hour peak capability of approximately 1,800 MW), approximately 656 miles of transmission lines (through which electricity is wheeled to and between the Department's various substations), over 2,400 miles of distribution lines (through which electricity is delivered from such substations to customers), 14 major substations, and two service centers. See "City Light System" and "Power Resources" for a discussion of the Department's existing facilities and "Capital Improvement and Conservation Implementation Programs" for a discussion of the Department's proposed capital projects. The Light System is interconnected with transmission lines owned by the Bonneville Power Administration ("Bonneville"). See "Power Resources—Transmission" for a discussion of Bonneville's transmission system.

Management

The Department is a department of the City and is subject to ordinances and resolutions adopted by the City Council and approved by the Mayor. The Mayor and City Council approve the Department's budget, set rates and approve financing and bond issuance, along with other functions outlined in the City Charter. The Department is under the direction of a superintendent, who is appointed by the Mayor and confirmed by the City Council. Currently the Department is headed by an acting superintendent on an interim basis. A process to select a permanent superintendent is in progress and is expected to be completed within the next twelve months.

In October 2002, a panel appointed by the Mayor recommended the establishment of an advisory board consisting of individuals with experience in the utility industry to provide advice to the Mayor and the City Council on policy and management issues facing the Department. In January 2003, the City Council passed an ordinance calling for the appointment of a six-member City Light Advisory Board. The Mayor and the City Council each designated three individuals to serve on the Board in March 2003, and the Board held its first meeting the following month. The responsibilities of the Board are purely advisory.

The Department is organized into four main operating branches (Generation, Distribution, Power Management, and Customer Services) which are headed by Deputy Superintendents who report directly to the Superintendent. A Deputy Superintendent for Finance and Administration, also reporting to the Superintendent, has responsibility for the Department's major administrative functions, including Finance, Information Technology and Facilities. Division Directors responsible for the Human Resources Division, Environment and Safety Division, Strategic Planning Office, and External Affairs Office also report directly to the Superintendent.